Supreme Court, U.S.
FILED
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No. 97-1298

In The

Supreme Court of the United States

October Term, 1997

EASTMAN KODAK COMPANY,

Petitioner,

v.

IMAGE TECHNICAL SERVICES, INC., J-E-S-P COMPANY, INC., SHIELDS BUSINESS MACHINES, INC., MICROGRAPHIC SERVICES, INC., OMNI MICRO-GRAPHIC SERVICES, INC., ATLANTA GENERAL MICROFILM CO., INC., DATEK LTD., B.C.S. TECHNICAL SERVICES, INC., CPO LTD., INC., ADVANCED SYSTEMS SERVICE, INC., AND AMTECH EQUIPMENT MAINTENANCE, INC.,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

REPLY TO BRIEF IN OPPOSITION

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I. INTRODUCTION

The fundamental problem with Respondents' brief is that to make the Ninth Circuit's decision appear limited and reasonable, Respondents have had to completely recast it. But no one outside this Court will read Respondents' brief. The business and legal communities will have to cope with the Ninth Circuit's actual decision, which is not nearly as limited as Respondents maintain.

The difficulties this presents are seen in *In re Independent Service Organizations Antitrust Litigation*, ___ F. Supp. ___, 1997 WL 805237 (D. Kan. 1997) ("*Xerox*"),[1] which Respondents never mention. Were it possible to distinguish the Ninth Circuit's unprecedented intellectual property ruling as Respondents suggest, that court would not have had to reject the decision outright, a remarkable act for a District Court. The two leading trade associations representing intellectual property owners might not be supporting this petition. The Department of Justice's Antitrust Division and the Federal Trade Commission would not be monitoring this petition as closely as they are. And the decision might not be a primary topic at every antitrust seminar held in the last seven months.

The decision speaks for itself, not through Respondents' revisionism. It in fact exposes the exercise of patent and copyright privileges to heretofore unknown "pretext" challenges based on intent. It in fact allows refusal-to-deal claims to go to juries without monopoly, unavailability and essentiality instructions. It in fact finds Kodak liable for refusing to provide competitors "all parts," while simultaneously holding that such a duty promotes free-riding. It in fact permits findings of aftermarket monopoly without evidence of the opportunism

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[1] Reprinted in *Brief for Amicus Curiae Information Technology Industry Council in Support of Petitioner* App. 2a-25a.

that was the core of *Kodak I*,[2] and simply because a competitive strategy was adopted in response to competitive developments. Try as they might, Respondents cannot blink any of that away.

II. REASONS FOR GRANTING THE PETITION

A. The Intellectual Property Issues

Respondents' efforts at spin control begin with the assertion that Kodak's argument is "that it has an absolute right to deny access to all of the essential, otherwise unavailable parts . . . simply because approximately one percent of the parts was subject to patents or copyrights." Brief for Respondents in Opposition ("BRO") 13. Of course that is not Kodak's argument.

The intellectual property issues arose below in the context of Respondents' claim to "an assured supply of all the parts, available all the time." One of Kodak's primary objections to that demand, raised time and time again during trial, was that it was *overbroad*. There were several reasons why it was overbroad; because it included thousands of parts that Respondents admitted they could get elsewhere (and which the Ninth Circuit held, after affirming liability, Kodak did not have to sell, Pet. App. 67A); because it effectively asked Kodak to provide ISOs with warehousing services (which the Ninth Circuit also said was improper, *id.*); because it included parts Kodak did not monopolize (which the Ninth Circuit said didn't matter, *id.* at 20A); because it included parts no one could seriously claim were essential to an ISO's viability (which the Ninth Circuit also said didn't matter, *id.* at 26A); and, the point relevant here, because it included patented parts and copyrighted service software

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[2] *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992).

and manuals.[3] In fact, Kodak cross-examined almost every ISO that testified with a large posterboard entitled "Wish List," that charted the various Kodak service assets that ISOs wanted from Kodak. Patented and copyrighted parts were on that list.

Kodak never said, as Respondents suggest, that because it had some patents and copyrights (now is not the time to quarrel with whether 65 patents and dozens of copyrights is "a few"); it had *carte blanche* to deny any request the ISOs made. Our point was simply that Respondents had no legal right to Kodak's patented and copyrighted parts; hence here was one more reason why *the particular demand made by the ISOs*, for everything, was overbroad.[4] Further, Kodak contended that the truly essential and unavailable parts were, with few if any exceptions, also patented or copyrighted, and therefore not subject to forced dealing. Lastly, Kodak intended to argue, until the District Court erroneously instructed that patents and copyright were "not a defense" to Respondents' claims, that Respondents' damages would be minimal if to compete they truly needed "all parts" (an assertion repeated at BRO 23-24), but as a matter of law could not force Kodak to sell patented and copyrighted parts. These were not trivial issues; Respondents' trial counsel told the District Judge that everyone might as well "go home" were Kodak's proposed intellectual property instructions given. Tr. 6505.

It ought to be troubling to this Court that Respondents' best defense of the decision is that intellectual property rights should be ignored, as "pretextual," if they

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[3] Thus, the first two questions presented in the Petition are highly interrelated. Both deal with whether Respondents were entitled to demand access to various Kodak assets.

[4] Kodak tried to have this point resolved before trial, through a motion for partial summary judgment, which would have allowed Respondents to recast their case in narrower terms. But since that motion was denied, the point was made at trial in terms of overbreadth.

only partly justify the refusal to accede to a broad demand for the right holder's competitive assets. Why? What is the reason or logic for nullifying a statutory right simply because the plaintiff asks for both protected and unprotected parts? Obviously, the adoption of such a rule would only encourage future plaintiffs to frame their demands of intellectual property holders broadly. Then those plaintiffs could also purport to distinguish the previously uniform case law rejecting refusal-to-deal claims involving intellectual property on the ground those cases did not involve a "blanket refusal that included protected and unprotected products." Pet. App. 52A; BRO 20. Lawyers half as clever as Respondents' will figure that out in no time.

Respondents' other attempt to distinguish previous cases – on the ground that they did not consider whether a business justification was pretextual (BRO 20) – is certainly true, but the reason it is true is a reason for, not against, review. It is true because prior to the Ninth Circuit decision, pretext was immaterial in this context; therefore, no court said *anything* about it.[5] Indeed, it speaks volumes that Respondents simply skip over the predicate for the whole pretext argument; whether the exercise of intellectual property rights is, as Respondents

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[5] On the other hand, courts frequently said that the intellectual property owner's intent was irrelevant. *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908); *W.L. Gore & Assocs., Inc. v. Carlisle Corp.*, 529 F.2d 614, 622-23 (3d Cir. 1976) (motive "regard[ed] as irrelevant"). Respondents' effort to distinguish *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49, 64 (1993), BRO 18-19 n.13, again misstates the issue. Notions of "absolute immunity" are not presented here. The denial of a patented or copyrighted good may be attacked on any basis that lies under the intellectual property laws, such as where the patent is invalid or obtained by fraud. The point, amply supported by *Professional Real Estate Investors*, is that motive and intent are irrelevant to the exercise of a lawful patent or copyright.

paraphrase the Ninth Circuit, "a species of legitimate business justification." BRO 14. It never was prior to *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147 (1st Cir. 1994), which adopted a different business justification doctrine for copyrights only, and then the Ninth Circuit's decision, which extends the new doctrine to patents and singularly makes intent material. It is this sudden, unjustified interjection of antitrust business justification doctrine into the unilateral exercise of statutory intellectual property rights that so clearly merits review.

It is also noteworthy that despite waxing on about the undesirability of a "pretext privilege" for several pages, Respondents never point to where in the language or history of our intellectual property laws it says that intellectual property rights may only be exercised by those who subjectively intend to benefit from the right itself, as opposed to the investment in the technology that leads to the right. That is the distinction the Ninth Circuit made, and upon which its "harmless error" ruling rests. Pet. App. 49-50A (the desire to exploit one's investments is a prohibited "free-riding" justification), 51A (citing testimony of a parts manager "that patents 'did not cross [his] mind' "). Nor do Respondents point to any basis for the remarkable proposition that intellectual property protections disappear if their applicability is discovered by counsel instead of the right holder's lay employees. BRO 14-15. If anything, the fact that Respondents would prove pretext based on the likes of a relevancy objection to an interrogatory, or because a part number is assigned to patented parts, *id.* & n.10, shows the mischief to which a pretext standard will lead. These are not even relevant matters, and they certainly should not be dispositive of Kodak's statutory rights.

What matters ultimately is that the Ninth Circuit held squarely, and very visibly, that (a) intellectual property rights are subject to antitrust business justification doctrine, and (b) "[e]vidence regarding the state of mind [of the rights holder] may show pretext," which conclusively rebuts the justification and thus eliminates the statutory

right to exclude others from the use of the work. Pet. App. 51A. Both holdings are new, contrary to all prior authority, and led, by the Ninth Circuit's own account, to the first case ever to "impose[ ] antitrust liability for a unilateral refusal to sell or license a patent[ed] or copyright[ed]" work. Pet. App. 43A. They will chill innovation, simply by subjecting intellectual property holders to intent evaluations, even if every case that follows, unlike this one, is decided correctly. Surely that merits review.

B. Refusal-to-Deal Standards

Respondents have far exceeded any "poetic license" lawyers are allowed when describing the Ninth Circuit refusal-to-deal ruling. In fact, they are not addressing the Ninth Circuit's decision, but rather an imaginary decision cobbled together from unrelated parts of the decision below. Note that of the 26 citations to the Ninth Circuit's decision in Respondents' treatment of this issue (BRO 20-24), *none*, not one, is to the Ninth Circuit's discussion of the issue (found at Pet. App. 24-31A).

The object of this exercise is clear enough: to convince the Court that only sufficiency of the evidence issues are presented because the Ninth Circuit actually agreed with Kodak that monopoly, unavailability and essentiality were elements of Respondents' case. BRO 22 ("the Ninth Circuit did just that"). What is not clear is why Respondents think this Court could be fooled into believing something so demonstrably false. The decision below discusses both instructional error and the sufficiency of the evidence. Pet. App. 23A ("Kodak attacks the district court's monopoly conduct jury instructions as well as the ISOs' evidence establishing Kodak's exclusionary conduct."). In fact, the discussion of the instructional error, which would void the jury's findings, predominates. *Id.* 24-25A, 30-31A. Any suggestion that this case therefore presents only "case-specific" issues, as

if that would preclude review,[6] is simply false. To the contrary, this case presents an ideal vehicle for review, precisely because the Court can address the important, unresolved issues about refusal-to-deal analysis from both the jury instruction and sufficiency of the evidence perspectives.[7]

It is actually quite revealing that Respondents now argue that monopoly, unavailability and essentiality were considered below – if not by the jury or the trial judge, then at least by the Ninth Circuit. They are finally admitting, by not denying, the importance of those factors. But those factors were *not tendered to the jury*. The jury was given only the amorphous "unnecessarily restricts or handicaps competitors" language, which is not a "standard repeatedly utilized by this Court" for refusal to deal claims (BRO 7), but a conclusory statement of the object of all exclusionary conduct analysis. By Respondents' logic, why did the jury even need to be instructed on this "standard"? The conduct instructions could have simply included the "willful acquisition or maintenance of [monopoly] power" verbiage from *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966); *see* BRO 3. But that

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[6] This court has often reviewed antitrust cases after trial, including those in which the sufficiency of the evidence was at issue. *E.g., Brooke Group v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209 (1993); *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985). Indeed, in *Kodak I*, the Court stated a preference "to resolve antitrust claims on a case-by-case basis, focusing on the 'particular facts disclosed by the record.' " 504 U.S. at 467, quoting *Maple Flooring Mfrs. Ass'n v. United States*, 268 U.S. 563, 579 (1925).

[7] Respondents' footnote 20 (BRO 24) appears to suggest that Kodak waived the instructional error. If that is its intent, it is highly misleading. The alleged waiver the Ninth Circuit addresses at Pet. App. 18A concerns whether Kodak's share of the parts market should be supplemented with its suppliers' market shares. It has nothing to do with the monopoly conduct instructions, which were vigorously contested. Pet. App. 23A.

is not instructing the jury; it is setting the jury adrift. Proper instructions would have told the jury to consider the objective factors Respondents now pretend to have embraced, but fought vigorously below.

Respondents' claim that monopoly, unavailability and essentiality were considered by the Ninth Circuit also misses the point. Kodak's argument, and the rule of most cases, is that these elements limit the range of competitive assets that even an assumed monopolist may be forced to share. That is, assuming Kodak monopolizes "all parts," it still cannot be forced to sell all parts. It can only be forced to sell specific parts that it monopolizes, that are elsewhere unavailable, and that are essential. The Ninth Circuit did not, in any way, undertake this winnowing process. It appears to have assumed, as Respondents have consistently argued, that Kodak's duty to deal would be coextensive with the definition of the upstream parts market. The issue is whether that is proper. Arguing that in other contexts, primarily market power analysis, the court touched on monopoly, unavailability and essentiality does not address the issue.[8]

Respondents instead repeat their usual (and so far successful) argument that Kodak is insisting refusals to deal be analyzed only under the "essential facilities" doctrine. We are not. We are saying that liability for refusals to deal should attach, and under this Court's decisions has only attached, where the object of the refusal to deal – whether it is a "facility" or a "good" – is

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[8] Thus whatever the Ninth Circuit said about the availability or essentiality of "all parts" collectively, *i.e.*, as a group, is immaterial to this issue. The availability and competitive importance of parts varies. Some are harder to get than others, and all of the evidence Respondents cite and the Ninth Circuit credits is about discrete parts. In any event, the important issue is how overall ISO competition was affected by Kodak's policies. The fact that the ISOs grew overall, and some grew dramatically, "burdened" by those policies shows there was no anticompetitive refusal to deal.

monopolized, not elsewhere available to the plaintiff, and essential to its competitive survival. More importantly, we are saying that if this Court intended in *Aspen* and *Kodak I* to adopt a "more general" refusal-to-deal doctrine (Pet. App. 31A), devoid of objective standards, it should say so explicitly, in a case presenting the issue squarely, so that the substantial conflict that now exists on this point may be resolved. The issue deserves review.

C. Aftermarket Monopoly

Respondents scarcely acknowledge the third question presented for review, contending primarily that it raises nothing not already resolved in *Kodak I*. There is a world of difference, however, between saying that a claim is not precluded as a matter of law, which is all *Kodak I* says, and saying that the evidence offered at trial was sufficient to withstand a motion for a new trial. If, as the Court said in *Kodak I*, it prefers "to resolve antitrust claims . . . focusing on the 'particular facts disclosed by the record,' " 504 U.S. at 467 (citation omitted), this is the opportunity to do it.[9]

Only one point on the merits of this question needs to be made here. Respondents are trying to reconcile the decision below with the post-*Kodak I* cases cited in the petition by contending Kodak did "change[ ] its policy toward selling its photocopier parts to its rivals." BRO 26. Note, however, that the alleged "change" consists simply of "adopt[ing] the parts restrictions after competition had arisen." *Id.* The issue, then, is whether *Kodak I* meant to hold that simply adopting a restrictive aftermarket policy in response to competition *changes the market definition* from a "systems" market in which Kodak has no monopoly power into a single-brand service market where

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[9] The alleged "procedural default" is immaterial to this petition. Kodak is not asking this Court to review the denial of its motion for judgment as a matter of law, but rather the denial of its motion for a new trial. No waiver affects that issue.

Kodak – like virtually all durable goods makers – has a monopoly market share. And, with respect to the micrographics markets, the issue is whether a change of policy that is prospective only changes the market definition. But the notion that such a policy change could change the market definition is far broader than anything the Court held in *Kodak I*, and it makes no sense. How can businesses know their rights and duties if adopting a strategy in response to something new in the market – the most common reason for adopting a strategy – changes the market definition? Once again, Respondents' brief underscores the need for review.

III. CONCLUSION

The Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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